

25X1A

REPORT NO.

## CD NO.

**RETAIN OR DESTROY**

DATE DISTR. 29 July 1949

NO. OF PAGES 10

FOR CRITICAL SECURITY REASONS  
THIS REPORT IS NOT TO BE FURTHER  
TRANSMITTED WITHIN THE UNITED  
STATES, OR BEYOND THE BORDERS  
OF THE UNITED STATES, WITHOUT  
THE EXPRESS PERMISSION OF THE  
RELEASING OFFICE.

NO. OF ENCLS.  
(LISTED BELOW)

SUPPLEMENT TO 25X1X  
REPORT NO.

Approved For Release 2001/03/05 : CIA-RDP82-00457R003000190009-3

**CONFIDENTIAL**

SECRET/CONTROL - U.S. OFFICIALS ONLY

25X1A

CENTRAL INTELLIGENCE AGENCY

-2-

The Relationship between Foreign Trade Managed by the Government and Foreign Trade Managed by Private Citizens.

In the future our nation should adopt "Planned Trade" - the planned control of imports and exports.

There are two methods for carrying out trade control.

A. The following two methods may be adopted in government-managed foreign trade:

1. Partial Government-Managed Foreign Trade System. (At present the USSR is adopting a "Sole Government-Managed Foreign Trade System." It seems that our nation should not adopt this system for the time being, owing to the different circumstances and requirements. The "Partial Government-Managed Foreign Trade System" is the transitional step from the unplanned trade system to the "Sole Government-Managed Foreign Trade System.") This system means that the government is doing a part of the foreign trade itself. For instance, the Kuomintang (KMT) has sole control in buying and selling four kinds of exports, such as mineral products, tung oil, tea and bristles, but it cannot at present control the exportation of products of other kinds.
2. Merchandise Exchange System. This means that an agreement is made between two nations for the exchange of merchandise, in order to avoid the troubles in the remittance procedure, and to have a well-planned control over the whole or a part of the imports and exports so as to keep them balanced. For instance, the KMT is adopting a "Merchandise Exchange System" in trade with Japan. This method is being adopted between the new democratic nations in southeastern Europe and the USSR, and between Great Britain and the USSR. The benefits of this method are:
  - a. To prevent the exports of the nation from being affected by the world market.
  - b. To balance the income and expenditures in foreign trade, in order to reduce the amount of foreign remittances and gold being paid out.
  - c. The date of delivery is accurate.

In our government-managed trade we can adopt these two methods at the same time.

B. The following three methods may be adopted in privately managed foreign trade:

1. Import and Export Permit System. This means that free importation and exportation is not allowed without the permission of the government. (The prohibition of import and export is also included in this system.)

The execution of the Import Permit System.

- a. Aims:
  - i. To save the external remittances.
  - ii. To resist the cheap sale.
  - iii. To regulate the market.
  - iv. To make the control of the trade direction easier.
  - v. To supply the country's necessities for economic construction.
- b. The way of execution: to arrange the order of importation as below:
  - First - Equipment and material for national defense.
  - Second - Heavy industrial equipment.
  - Third - Transportation equipment.
  - Fourth - Light industrial machinery and raw materials.
  - Fifth - Cultural equipment.
  - Sixth - Necessary consumable materials, etc.

**CONFIDENTIAL**

SECRET/CONTROL - U.S. OFFICIALS ONLY

## CENTRAL INTELLIGENCE AGENCY

-3-

## The execution of the Export Permit System.

## a. Aims:

- i. To preserve the necessary materials for the nation and to prevent the prices from getting high inside the country.
  - ii. To facilitate the concentration of external remittances in the hands of the government.
  - iii. To prevent the materials from getting into the hands of the enemy.
2. Import and Export Limitation System. To allow a fixed quota of importing and exporting to be done in a fixed period. (A system based on the quantity or exportation of a fixed quota of a certain kind of merchandise. The Limited Importation System adopted by the KMT import and export control committee is one of the methods.)
  3. The Import-Export Link System. To limit the importation and internal sale in order to encourage the exportation and at the same time importation of raw materials.

Although each of the above-mentioned three methods has its own peculiarities, it is worth finding out whether it is suitable to adopt these three methods separately, or all of them at the same time. The Import and Export Control System presently adopted by the KMT seems to be three .....

## Importation:

Besides the above-mentioned three methods adopted by the government to control privately managed trade, the following practical problems created at the present time should be dealt with.

1. The procedure for the importation with private external remittances. In order to encourage overseas capital to develop inside the country, the government should adopt a magnanimous attitude in this matter, but on the condition that the imports are in accordance with the government's Import Permit Procedure.
2. The procedure for a privately managed factory, a firm, or an individual to apply for the external remittances. The problems are:
  - a. The requirements in an application.
  - b. The quantity to be granted - according to what standard.

Methods of Controlling Remittances in Foreign Trade.

## Exportation:

- A. The government adopts the exportation external remittance control method with an aim to secure the external remittances, and therefore should not strive with the citizens in their interests. (At present in the domestic market the KMT is pressing down the price of materials to be exported in order to profit itself in the transaction.)
- B. The payment for the merchandise in external remittances to the export merchants. How to be just and enable the government as well as the merchants to be benefited. This is the most important problem in the prevention of smuggling. There are at present three external remittance rates under the control of the KMT. There are at present three prices (sic), the market price and the black market price. The KMT has given the citizens a rate which is too far away from the rate in the black market, thus causing the export merchants either to stop their business or to take the risk of smuggling. The problems on the external remittance rate are

SECRET/CONTROL - U.S. OFFICIALS ONLY  
**CONFIDENTIAL**

## CENTRAL INTELLIGENCE AGENCY

-4-

worthy of consideration. (At present the KMT is ordering the export merchants to sell the external remittances obtained in exporting and transshipping their merchandise, to the specific banks at the market price.)

- C. The standard of the export remittance control. According to the KMT's "Wartime Import and Export Control Regulations," it is necessary to comply with the procedure of remittance control before any exportation can be made. Only merchandise weighing less than 30 kilograms and valued at less than CN\$ 200, which is carried on the shoulders to foreign places along the border for sale by farmers and hawkers, is exempt from this regulation. At present we are adopting the same method.

## Research on Problems.

- A. The problem of whether the "Export Remittance Control System" and the "Link System" can exist at the same time; their respective advantages and defects.
1. According to the view of the common merchants, there are very few Chinese merchants engaged in the import and export business. (Foreign merchants can do this concurrently because they have more capital.) When adopting the "Link System," the export merchants will probably sell the Import Permit, which they have obtained in the exportation, to the import merchants, thus readily creating an external remittance black market.
  2. Some merchants suggest having the "Link System" because this system has the ability to calm down the import control when the price of materials gets high due to the shortage in the country after the importation has been strictly controlled.
  3. During the initial period, when experience in foreign trade control is still insufficient, the adoption of the "Link System" within the transitional period holds the possibility of encouraging the import and export merchants in the exportation which will assist the government in the supply of materials.
- B. How to fix the rate of remittance ?
1. During the transitional period, it is suggested that the rate should be stationary, and should temporarily follow the black market. The government should, of course, have some way to control it.
  2. How to adjust the black market price and the official price.
- C. How to get through the difficulties in the foreign trade during the initial period ?
1. To get through the foreign business individuals.
  2. To commission the civilian\* trade enterprise powers in carrying out.

How to Deal with British and American Trade in China.

- A. Theoretically, we should act in accordance with the declaration which reads: "We are willing to build up a friendly and equal connection with all foreign states, including the United States, and at the same time we will protect the lawful interests of all foreigners, including Americans, on the condition that the entire territorial sovereignty is maintained and the nation is not invaded in any manner."

CONFIDENTIAL

SECRET/CONTROL - U.S. OFFICIALS ONLY

CENTRAL INTELLIGENCE AGENCY

-5-

According to the above theory, our new government should act by all political means to accomplish the following:

1. Nullify all special concessions obtained by Americans during the civil war, such as the Sino-American Trade Pacts.
  2. Nullify all special concessions of British trade in China: the special industrial concessions such as the Jardine Weaving Factory; the concessions on wharves and godowns; and the concessions to the Peking Syndicate for the operation of coal mines in Honan Province.
- B. Strategically, the manner adopted in dealing with the British should be different from that to the Americans.
1. America has obtained special concessions in China by making use of CHIANG's civil war in China. Britain has not taken any positive part in the war although she is very angry at America for excluding British interests in China.
  2. While the Liberation Army is approaching towards victory, Great Britain still remains in a neutral diplomatic position, and has even proposed to restore trade with the North China Government. Obviously, Great Britain is making use of the opposition between America and the Chinese Communist Party (CCP) to go one step before America is trading with the CCP in China.
  3. The American merchants in China have a different manner of dealing with the CCP from that of the American Government. The Secretary of State is at all times hoping to maintain the old government, or even an exiled government, because China is one of the five powerful members of the United Nations, and a permanent member of the Security Council with the power of veto, and is being used by America as a legal tool in the United Nations. But the American merchants, who have actual interests in China, are asking their government to give up its dream and note the real facts, because they are afraid that their government will remain in an enemy status with regard to the new government, which will give a good chance to their commercial enemies, the British.

If we can make good use of the strategy in dealing with British and American trade in China, we will secure advantages, not only in foreign trade, but also in urging the American merchants in China to apply pressure on Washington to alter American policies in China.

#### The Concessions Obtained by British and American Merchants Trading in China.

In the proclamation regarding the new external remittance procedure made on 17 August 1947, 29 banks were appointed to deal with external remittances, including 12 foreign banks. The foreign banks, such as the National City Bank, the Chase Bank and the Underwriters' Bank, have played an important part in the external remittance business.

#### American Enterprises in China:

1. In general.

Since the end of the war with Japan, the total number of American business establishments in China has reached 204 units, while the number of branch establishments spread all over the large ports has reached 20 units. There are 202 establishments, or 99 percent of the whole, in Shanghai, and 2 in Tientsin. Tientsin has the most branch establishments, while Hankow, Peiping, Canton, Nanking, Tsingtao and Chungking are next to it. There are two branch establishments in Hong Kong, but they are under head offices in Shanghai and are therefore included among the American enterprises in China.

CONFIDENTIAL

SECRET/CONTROL - U.S. OFFICIALS ONLY

SECRET/CONTROL - U.S. OFFICIALS ONLY

25X1A

CENTRAL INTELLIGENCE AGENCY

-6-

In 1948, branch offices of American enterprises in China were distributed as follows: five in Tientsin; three in Hankow; two each in Peiping, Canton, Tsingtao, Hong Kong and Nanking; one each in Chungking and Shanghai.

## 2. Classification.

Among the above mentioned 202 units, the natures of the enterprises can be classified into 44 kinds or 16 classes.

<u>Class</u>	<u>Trade</u>	<u>Number of Commercial Establishments</u>
Banking	Banks	6
	Insurance	14
Trade	Investments	6
Import	Central import and export	47
	Dyestuffs	1
	Leather	2
	Timber	2
	Matches	1
	Mineral products	2
	Cotton	3
	Electrical accessories	4
	Machinery	6
	Automobiles	5
	Tobacco	12
	Petroleum	4
	Paper	3
	Cement	1
	Chemical materials and drugs	7
	Wireless	2
	Refrigerator installations	1
	Rubber tires	1
	Motion pictures	12
	Photographic material and equipment	3
	Import agencies	7
Export	Egg products	1
	Fur	3
	Embroideries	13
Manufactures	Elevators	1
	Candy	2
Industry	Public utilities	2
	Printing presses	1
	Sanitary equipment	1
	Paper	1
Electricity	Electric installations	1
	Electric communications	3
Transportation	Import and export services	1
	Steamship	5
	Transportation service	2
Land Investment	Land investment	3
Advertisements	Advertising agency	1
Cultural	Books and office appliances	5
	News agencies	5
	Broadcasting	1
	Souvenirs	1

CONFIDENTIAL

SECRET/CONTROL - U.S. OFFICIALS ONLY

## CENTRAL INTELLIGENCE AGENCY

-7-

## 3. Position.

Having a special standing (the special concessions given to the American merchant in the Sino-American Trade Pacts), a larger capital, and a wider business, the American merchant in China has a position in the foreign trade far beyond the reach of the Chinese import and export merchants, in the following points:

- a. The sole agent in a certain kind of American product.
- b. The sales privilege obtained during a business competition.
- c. In receiving an order from a Chinese import merchant.
- d. The business in exporting special products.
- e. In affecting the world market of the Chinese products.
- f. In obtaining a huge income in the insurance, transportation, godown and other procedures.

In addition to this, the American import and export merchants in China have been supplied with external remittances by the KMT in the import control.

According to the report for March of this year on the external remittances approved by the Import and Export Control Committee, the total amount of external remittances granted to American merchants during March was over US \$3,600,000, which was almost over 30 (sic) percent of the whole amount of US \$9,000,000.

The peculiarities of British trade in China.

1. A longer history - the Jardine Company was set up in 1823 in Canton.
2. A huge system has been built up within the firm in its business. The Jardine Company has built up such a system, consisting of shipping department, railway investments department, wharves and godowns, insurance department, mechanical engineering department, cold storage, the Jardine Weaving Factory, the Packing Company, the Brewery, and the import and export department. The Americans, Japanese and French have never had such a large-scale business in China.
3. Great Britain has invested from 260,000,000 to 460,000,000 pounds in China, which is the largest amount when comparing with other nations. But America has property worth more than US \$100,000,000 in Shanghai alone.
4. The connection with Hong Kong.

British firms in China. (There is no detailed investigation on British enterprises in China since the war. The following are those which have come to mind.)

Firms dealing with productive equipment and materials:

On Lee and Company, Limited (安利有限公司)  
 Shun Cheong Mechanical Engineering Company (信昌機器工程公司)  
 Jardine Engineering Corporation, Limited  
 Shanghai Coal Gas Company

Firms dealing in industrial raw materials:

Jardine Weaving Factory (Granted permission to import raw materials.)  
 Jardine and Company, Limited\*\*

Firms dealing in sundry goods, equipment and materials:

Butterfield and Swire, Limited  
 Shun Cheong Engineering Company (信昌機器公司)  
 Dodwell and Company, Limited

CONFIDENTIAL

SECRET/CONTROL - U.S. OFFICIALS ONLY

SECRET/CONTROL - U.S. OFFICIALS ONLY

25X1A

CENTRAL INTELLIGENCE AGENCY

-8-

Man Tai Company (萬泰洋行)  
Jardine Engineering Corporation, Limited  
Malcolm and Company, Limited  
The Pekin Syndicate Limited

The Changes of Conditions of the British Trade in China.

- A. Before the incident of 18 September, Great Britain was in possession of the following special concessions:
1. The concession of the Customs Pact. In the Treaty of Nanking, the taxation on imports was fixed at five percent, while in the Sino-British Tientsin Treaty the (?) was fixed at two and one-half percent. These rates of taxation have been altered several times, yet China is still unable to have her independent rights in customs affairs.
    - a. The Chinese Maritime Customs Branch Office in England.
    - b. The salary to be converted into English pounds sterling at the official price and remitted to the country.
  2. The concession of the port system. In the Treaty of Nanking, the port system, the trade regulations between China and Great Britain, and extraterritoriality are all privileges of the British coming to trade in China.
  3. The concession to the most-favored nation.
  4. The trade concession along the coasts.
  5. The river navigation concession. (This concession was nullified during the final period of the war of resistance. The river navigation concession in South China and Central China was recently demanded again.)
  6. The industrial investment concession. (The concession was initiated by the Japanese in the Treaty of Ma Kwan, and the British followed its steps.)
  7. The privileges of the concession and lease. The British were making the ceded and leased lands into the bases of their trade.
  8. The sphere of influence, such as the ceding of Hong Kong in the Treaty of Nanking has controlled the sphere of trade in South China. In the Anglo-Russian Pact signed in 1899, the Yangtze Valley was agreed to be the British sphere of influence. Having obtained the above-mentioned special concessions in China, Britain has been holding the top position in trade with China before the war.
- B. The position of British trade in China after the 18 September incident, and after the Sino-Japanese war.
1. During the period between the 18 September incident and the Pacific War, the British merchants lost all their privileges in China to the Japanese.
  2. After the surrender of Japan, the special concessions to British trade in China were encroached upon by the Americans.

How to Prevent the Materials from Fleeing during the Difficult Period of Transition, and How to Build up an Initial Trade System.

- A. During the difficult period of transition, when the old government has collapsed and the new organ has not yet been set up, the disorder of the community will cause signs of fleeing and concealment of materials.

CONFIDENTIAL

SECRET/CONTROL - U.S. OFFICIALS ONLY



## CENTRAL INTELLIGENCE AGENCY

-9-

- B. For the above reason, the new government should, prior to its settlement, promulgate the materials regulations:
1. To prohibit removal (a) by smuggling, (b) by concealment.....  
To convert the public properties into private properties - to store the materials in separate places.
  2. During the period of freezing, to initiate a movement in investigating the sources of the materials to be removed, and to examine the identity papers.
  3. To block up the land and waterway traffic in order to prevent the exportation of materials. If the exportation is necessary, permission must be obtained from the responsible organization.
- C. The release of the frozen materials and the setting-up of an initial trade system.

After the initial period, when order in the community has been restored, the government should release the frozen materials in time to restore the prosperity of the city.

- a. Apart from confiscating bureaucratic capital, all private materials belonging to the citizens should be released.
  - b. All materials which have been confiscated previously will be released upon the production of the identity papers.
  - c. The grant of export permits. (To set up an import and export organization in issuing the permits.)
  - d. The industrial and commercial remittance permit. (To be dealt with by the government banks. The amount is to be limited.)
  - e. The transportation of merchandise. Privileges to be given to privately managed transportation establishments.
- D. How to reopen foreign trade.
1. Difficulties may be encountered in foreign trade during the initial period.
    - a. The foreign merchants may adopt a hesitating manner towards the new government.
    - b. The traffic was blockaded or was affected by the war, and may not be cleared up for the time being.
    - c. Obstruction or destruction by the foreign government.
  2. How to clear up the obstruction to the foreign trade.
    - a. The careful management of the foreign merchants' properties in China.
    - b. To get through the relationship of the privately managed business and the foreign merchants.
    - c. To get through directly the private trade of the foreign merchants.
    - d. The government to operate the merchandise exchange.
    - e. To make use of the business rivalries between the nations which are trading with China.
  3. How to deal with the KMT which is destroying the traffic of foreign trade.
    - a. When Shanghai and Tientsin restore their foreign trade, the KMT will most probably make use of its navy based on Taiwan to destroy our overseas trade.
    - b. How to deal with, for instance, the maintenance of traffic between Hong Kong and Shanghai.
      - i. To hire foreign vessels for the above purpose.
      - ii. To make use of big junks, the kind of junk that used to ply between Hong Kong and Taiwan, Hong Kong and Shanghai, and Hong Kong and Tsam Kong, during the Japanese occupation.

**CONFIDENTIAL**

SECRET/CONTROL - U.S. OFFICIALS ONLY

~~SECRET/CONTROL - U.S. OFFICIALS ONLY~~

25X1A

CENTRAL INTELLIGENCE AGENCY

**CONFIDENTIAL**

-10-

- iii. To make use of the Chokiang-Hiangsi Railway, the Canton-Hankow Railway, and the Canton-Kowloon Railway.
- iv. To make use of air traffic.

25X1A

\* [REDACTED] Comment. The translator used "civilian" throughout this document, in contexts where the meaning was either "private" or "citizen." In editing, these words have been substituted as seemed appropriate.

25X1A \*\* [REDACTED] Comment. The reference is presumably to Jardine, Matheson and Company, Limited.

**CONFIDENTIAL**

~~SECRET/CONTROL - U.S. OFFICIALS ONLY~~